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EXOGENOUS AND OPPORTUNISTIC FINANCIAL ARREARS: Evidence from a Survey of Bulgarian State Managers

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Abstract

Following tight stabilization policies, in many transition economies enterprises have responded to reduced credit flows with a rapid development of interfirm trade credit. Such credit has often rapidly become overdue, and become a serious challenge to policymakers' resolve to stay the course. Certainly some arrears are justifiable consequences of price and demand shocks. The motivation of the paper originates in Perotti (1995), who argues that a significant component of arrears is the result of a collective opportunistic strategy of firms resisting restructuring and extending unenforceable credit to poor borrowers in the expectation of a bail-out.

An empirical test of this view would be evidence of diffuse expectations among firms about a potential contagion effect of good firms due to unpaid receivables from other firms which may lead to a financial crisis. If the expected amount of illiquid firms has sufficient mass, it is rational to expect financial relief from the central bank to clear arrears. This reinforces the incentives to inertial behavior: managers refuse adjustment and extend credit to uncreditworthy firms, expecting others to do the same to the point where all firms are bailed out in the end.

In order to assess the presence of such attitudes, we analyze the result of the first of two surveys conducted in 1993 and 1994 among state enterprises in Bulgaria. Our preliminary results suggests the presence of strong fears of financial contagion and diffuse expectations of future bailouts. There is evidence of both involuntary and deliberate inertia. While many firms indicate that they have little choice of trading partners, net lenders are more likely to choose trading partners on the basis of long term relations rather than financial solidity; yet they are significantly more concerned about the possibility of a domino effect whereby insolvency by bad firms would lead to a contagion of good ones. This is particularly pronounced among smaller firms and those with largest net arrears positions.

While managers usually do not overtly admit an inclination to extend opportunistic trade credit, they are ready to attribute such attitudes to other firms. In general, a certain competition for attention and relief emerges among firms exposed to overdue receivables and those exhibiting large bank arrears. Firms are more likely to admit the presence of inertial or opportunistic behavior among firms exposed to a different type of arrears than theirs, presumably because they cannot be blamed for such behavior. An exception are larger firms, which tend to be less profitable and to be larger borrowers from banks; they seem much more incline to expect a bailout of bank arrears while they care less about trade credit, and are more overtly suspicious of motives behind trade credit extensions by other firms.

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Introduction

The central question of financial discipline during transition turns around the establishment of tighter financial constraints, such as enhanced pressure for credit repayment.

In the first stages of financial reform the tools available to the policy authorities are very blunt: essentially they consist of controls over monetary and credit aggregates. However, the establishment of financial constraints from the center is quite difficult, as stabilization requires decentralized financial discipline and adjustment at the enterprise level. Success in these areas depends on inducing firms to substitute internal finance for bank credit to fund input costs; it thus requires a process of restructuring which involves wage restraint, increases in productivity, changes in output composition, and layoffs. Such restructuring is likely to be resisted by firms; in many countries their response has been to build up interfirm credit, which soon became overdue on a massive scale. In these circumstances, a failure to achieve a sufficient adjustment response often forces to relax credit policy.

The radical transition has led to dramatic shocks to relative prices and trade flows, with significant impact on short term liquidity and long term profitability. Unquestionably, trade credit may be involuntary in the short term, due in part to the rigidity **and monopolization of the production chain; firms may be in the short term bound to deal** with a limited number of trading partners, and may have no choice but to grant credit to **illiquid buyers. Other objective causes of arrears may be limited experience with market** contracting and the scarcity of alternative financing.

In principle, trade credit from more liquid suppliers may be an useful short term remedy. But because there are still few legal and contractual sanctions to failure to loan repayment, trade credit is likely to rapidly evolve into trade arrears.¹ Under such circumstances it is hard to understand the willingness of many firms to grant trade credit on the scale observed.

Elsewhere, Perotti¹ (1995) argues that there may be another major cause of trade

¹ In addition, some industries are so severely impacted by the new relative price structure that they remain unprofitable even in the longer term, and thus need to scale down operations. Thus involuntary trade arrears have inefficient consequences, as they allow some borrowers to maintain value-subtracting production.

arrears, endogenous to the process of systemic transformation. The Eastern European institutional context produces strong incentives for inertial behavior and collective resistance by state-owned enterprises to tight credit policy.² Enterprises may resist adjustment and fund input purchases by exchanging unenforceable trade claims, in the expectation of a future bailout. As most trade credit soon becomes overdue, it puts strong pressure for financial relief through new central bank credit, validating the inertial strategy of enterprises. Thus a large component of the rapid arrears build-up may be a deliberate self-coordination on an inertial response. The consequences are high inflation and a damaging drop in the credibility of financial constraints, and lead to a cyclical pattern of credit tightening and arrears clearing as in Romania in 1990-1993.

It is certainly critical for policymakers to assess the relative importance of both causes for trade arrears. The paper attempts to investigate the presence of opportunistic trade lending by examining the underlying expectations and attitudes to trade credit extension and repayment among a group of highly exposed Bulgarian state enterprises. The goal is to determine whether individual answers suggest a set of expectations and attitudes which may lead to a deliberate, “collusive” creation of unenforceable credit, granted by firms potentially capable of adjustment but which prefer to remain inertial in the expectation of a bailout.

The survey methodology aims at measuring **expectations and attitudes** by enterprise managers (as well as their views about other managers’ attitudes) concerning credit to illiquid customers, repayment of arrears and expectations of any future bailout policy. Moreover, the survey correlates balance sheet information about enterprises’ financial and productive position and the subjective explanations offered by their managers for the causes of the enterprise’s net trade credit and arrears position. The goal is to assess the existence of degree of deliberate creation of trade arrears.

Bulgaria is an interesting case study, as it has had a major cancellation of overdue bank debt in 1994 which may be repeated soon, and still has to address the question of overdue trade credit. It is therefore a country in which it is crucial to understand the microeconomic causes of behavior underlying the creation of arrears.

² Such inertial behavior is not very different from the passive resistance typically put up by enterprises under socialism to the diktats of the central plan.

Part I Sample description

The empirical analysis in the paper uses two main sources of data. The first source **are statistical data collected quarterly by National Statistical Institute on the base of balance sheets and income statements of all Bulgarian state, cooperative and municipal firms.** The second source are two surveys over samples of these firms: the first was conducted in July 1993, and was repeated, with significant and in part unfortunate modifications, in September 1994. The information was collected by NSI through a questionnaire directed at the enterprise management, to be returned with the mandatory quarterly balance sheet report. The survey content and most of the tabled results are in the Appendix.

For the first survey 180 firms were selected; the second included 309 firms. The sample design for both surveys was constructed on the base of the second quarter balance sheet data. Specifically, for every industrial sector the first survey included all the firms with the largest payables in arrears to suppliers which represent in total 85% of all overdue payables to suppliers. From the selected 180 firms, 166 responded to the questionnaire. However, the final sample excludes 13 firms for which we could not obtain balance sheet data.

Since the beginning of 1994 NSI has not collected information about trade arrears. Therefore, the firms selected for the second survey represented 85 % of total receivables from clients and 85 % payables to suppliers in each industry, based on the balance sheet of the second quarter of 1994. This resulted in a bigger sample of 309 firms, of which 304 responded to the questionnaire. By construction, both samples have some bias towards larger firms, although in general the state-owned industrial sector in Bulgaria is fairly concentrated. The profitability of the selected sample in 1993 was on the other hand comparable with the overall industrial sector, averaging -12% of sales versus -9% for the entire population.

In the first survey it was possible to connect the survey responses to each firm's balance sheet. Unfortunately, classification changes have made the task very hard for the second survey.

The main goal of the surveys was to contribute direct information about the causes of trade arrears and their influence on the enterprises' performance in Bulgarian industry.

Specific questions were directed at establishing to what extent the firm was able or willing to switch to alternative buyers; and expectations regarding the causes of other firms' net arrears positions, including voluntary trade credits extended to uncreditworthy firms in the

expectation of a government bailout. Because managers may be less than forthcoming, even in an anonymous survey, in revealing their own attitudes, one research technique employed was to ask about *their opinions about other managers' attitudes*.

General Survey Results

Because of some objections by the NSI, the questions in the two surveys are slightly different. However, most questions in the 1993 survey can be paired with a similar one in the later survey, thus allowing some intertemporal comparison. We will present here the general sample results, focusing on measuring in particular the constraints and attitudes within which the financial decisions are taken.

The first question asked in 1994 indicates that a majority of receivables in arrears originate from domestic transactions. Interestingly, it suggests that in 80% of cases arrears are with traditional trading partners, rather than with firms with which the SOE has started operating since the beginning of reform. Thus there seems to be a relation between arrears and the inertia of old trading arrangements.

The second question allows us to assess how important are considerations of financial solidity in the choice of trading partners, or whether there is lack of alternatives. In 1993 for 46 % of the firms the choice of suppliers is based on a long term relationship; for 45 % there is no alternative choice; and only for 9 % the main criterion is their financial solidity. The proportions are a little more reassuring in the choice of customers: in 44 % of cases it is a long term relation, for 28 % there is no alternative, and for 28 % the choice is based on financial stability. Sensibly, firms are more careful about buyers than suppliers; however, almost 3/4 of selling is not based on financial considerations, rigidities and inertia are still significant.

In 1994, the questions did not distinguish between suppliers and buyers, but the response does not change much: for 50% the main source of trading partners are long term relations, for 32 % there is still no alternative, and only for 18 % financial solidity is a paramount consideration. In practice there is no much improvement. While in a third of cases there may be no choice, inertia is evident from the steady reliance on customary clients.

While in the short term the chain effect may be an objective cause of arrears, in the medium term it ought to be possible for firms to adapt their sale financing. Puzzlingly, there is no evidence that after some experience with unpaid bills firms start changing relationships.

Question 3 concerns the average duration of payables and receivables in arrears. Length of nonpayment is employed to provide a second measure of arrears besides total exposure to overdue credit. Question 4 measures the extend of inter-industry versus intraindustry payables in arrears. Neither of this data is presented in this version.

Question 5 investigates the (perceived) main obstacle to repay overdue trade payables. In 1993, for 46 % the cause are receivables in arrears; in 1994 it is 48 %. For 30 % the cause is low profitability, which is 37 % in 1994. Thus the “chain effect” is still the most important effect. Surprisingly, in only 21 % of responses the cause is lack of demand, which drops to 11 % in 1994. Thus the financial interrelation with other firms remains the main obstacle; it is the difficulty of being paid, rather than to sell, which hinders repayment.

Question 6 was designed to be an important measure of attitudes, as it inquires which course of action would be taken if a buyer were unable to pay cash. The question was modified to ask about the preferred response; thus the answer concerns a desirable action, not a realistic response, and is therefore less informative. In 1995 75% of respondents said that they would **prefer to** switch to an alternative client (of course, in reality this may not be an option); in 1994 this was the response by 70 % of answers. Interestingly, a fraction (12% in 1993, 14 % in 1994) admits choosing to grant trade credit because of no choice. A fraction around 15% in both surveys would **prefer to extend trade credit** because of **their** partners’ financial solidity. This may be signalling a reluctance to switch even if they do not have solid partners.

Question 7 inquires about the main obstacles to conducting a complete productive restructuring of operations. The answers provided were different in 1994, indicating receivables in arrears instead of lack of profitability.

The firms’ answers are indicated below:

Responses in 1993

30 % High rates
24 % Lack of profitability
18 % Lack of demand
28 % Other

Responses in 1994

35 % High rates
13 % Receivables in arrears
13 % Lack of demand
39 % Other

Again, lack of demand is not a major concern. Lack of profitability and other financial problems, such as high interest rates, unpaid receivables and other issues (such as poor legal enforcement) are much more important.

Question 8 is quite delicate, as it asks whether firms expect whether there will be a collapse of good firms due to bad firms' behavior. It is therefore a direct test of diffuse expectations about systemic financial contagion across firms. In 1993, two third of respondents believed a collapse was very likely, suggesting a diffuse perception of the risks of a domino effect. One sixth of the first sample even stated that the situation was so serious that a bailout was most likely.

In 1994, the question was modified by NSI so that respondents could not choose any longer whether they thought a bailout was likely. The percentage of those fearing a collapse fell only slightly from 65 % to 62 %. On the other hand, there was a growing perception that better firms can over time separate themselves from the problem, as the percentage of those who felt good firms could choose to switch to new partners rose from 16 to 29 %.

Question 9 in 1993 was also a critical question, which was unfortunately crossed out in 1994. The question asked quite point-blank: Do you expect a bailout of bank arrears ? 30 % answered "Yes, a general bailout"; 38 % answered "Yes, a partial bailout"; 19 % answered No, while 13% did not know. This is a very strong signal. Among those voicing an opinion almost 80 % expect a complete or partial bailout of bank arrears, which suggests diffused expectations that pressure on the government would have led to a broad bailout of bank arrears. These expectations were validated in late 1993, when a large amount of old debt was taken on by the government.

Question 10 asked "Do you expect to be able to repay your overdue payables if your bank arrears are bailed out ?". The overwhelming answer in 1993 was Yes, from 69% of the sample; only 17% answered No, our financial position is too weak. 13% answered "Don't know". 1% had no bank arrears. Clearly there were very strong ex ante expectations that a bailout will solve the arrears problem.

We can compare this expectation with a related question on the effectiveness of the bailout on repayment of arrears, asked one year later, which asked "Can you repay arrears after the past bailout ?" Interestingly, the response was less optimistic: 59 % answered Yes, 17 % No and 6% Don't know. (For 18 % no financial relief was provided). Although more cautious, the response in 1994 confirms the previous expectations. However, this is puzzling since there was no such an obvious improvement in the arrears situation after the 1993 bailout. It is on the other hand possible that managers felt they should be presenting a positive attitude in the survey.

Another related question more subtly asked whether they thought others (their borrowers) would now repay their debt, following the recent bailout. It was asked: "Do you think your rec in arrears will be repaid after bailout ?" The answers are dramatically different. Only 25 % answered Yes, 22 % No, 32% Don't know.³

These large differences with the response to Question 10 are interesting. Firms which on average said they would repay their arrears after the first bailout **do not think that others will**. Is this a sign that respondents are more optimistic or favorable about their own behavior than about the financial attitude by other firms ? Clearly the opinion about others' behavior is less affected by the desire to appear as a reliable firm. In our view this question, because indirect and blame-free, is more revealing about the real underlying attitudes of the respondent.

Finally, Question 11 from the 1993 survey asked: "Do you think that trade credit is sometimes given to uncreditworthy firms in the expectation of a subsequent bailout ?" This question was most delicate and least likely to be answered frankly, even though it was phrased as to leave the respondent above blame. Still, 22 % answered Yes, 47 % No, and 31% said that the bailout did not matter. Thus, among those with an opinion on the role of the bailout, a third admitted that trade credit will be granted to uncreditworthy firms because of the expectation of a bailout.

This section established various aspects of enterprises' attitudes about trade lending and about credit repayment in general. The next section investigates behavioral and expectational patterns which can be identified by splitting the sample on the basis of balance sheet and survey characteristics. Because this procedure is presently not possible on the second survey, we focus on the results from the first one, where we can correlate balance sheet data and survey answers. We analyze the conditional distribution of survey answers according to the top and bottom 15 % of the distribution according to firm profitability, size, net financial position and net arrears exposure. Finally, we analyze a subsample of firms identified by their rather explicit answers to "delicate" questions.

³ For 21% there were no receivables in arrears.

Part II Sample Analysis

The distribution of answers for the top and bottom percentile of firms in terms of profitability turned out to be noninformative, in the sense that their answers closely match the sample distribution. We attribute this to the limited significance of accounting data, and thus omit it. Presumably, the other features are more objective measures of true firm characteristics.

The splitting of the sample reveals some suggestive patterns of behavior, for which we offer some bold interpretations. Our main conclusion, in brief, are the following. Firms tend to emphasize the financial problem to which they are more exposed, such as trade arrears or bank arrears. They also tend to be more cautious about admitting the existence of opportunistic behavior when they are more likely to be at suspicion themselves, though they are distinctively more overt about it once they are not directly exposed to it. In general, firms which are on average larger, are net borrowers, have a worse financial position and more payables in arrears, tend to be more cautious trade lenders; are more convinced that the government will be forced in a partial, possibly more targeted bailout of arrears; appear less interested in a bailout of trade arrears than of bank arrears, to which they are probably more exposed. But even after such financial relief, still do not expect to be able to repay all their arrears. This group also views with suspicion the extension of trade credit, which it often considers collusive. The second group of firms tends to be smaller, to be a net lender, and to have **more overdue receivables**; it **seems** to act **more** inertial, or **maybe more** fatalistic, in their choice of partners. They admit to being forced to lend because of lack of alternative buyers. They also tend to emphasize the risk of financial contagion due to **unpaid arrears**, perhaps finding safety in number; They appear more convinced of their own solvency, if only its trade loans were repaid; and finally, they do not readily admit to the possibility of collusive trade credit, for which they could presumably be singled out.

Large versus small firms

Predictably, smaller firms are more likely than large firms to have alternative trading partners. The lack of choice for large firms is probably linked to their position in the productive chain, their importance in heavy industry and their greater investment in fixed assets. Surprisingly in view of their greater flexibility, smaller firms seem to act more inertial than the sample average, relying more on long-term relations with other firms than

on their financial solidity, while larger firms are on average more alert.

Lack of profitability is the main cause for the overdue payables to suppliers for large firms; for small firms the main obstacles are receivables in arrears. Interestingly, small firms are more likely than average to expect that the arrears problem will affect a large number of firms, and eventually lead to a systemic crisis of good firms as well. Large firms are strongly convinced that the government will be forced to offer a bail-out of some sort. Concerning bank arrears, small firms are more likely to expect a general bail-out, which would presumably include them, while the large ones see partial relief as more likely. This suggests that firms tend to focus on the financial threat that affects them most directly, and root for different policies.

The large firms are on average less likely than small firms to expect to repay their receivables in arrear after a bank loan bail-out, mainly because of their large losses. They are also significantly more likely than small ones to admit that some firm would give trade credit to uncreditworthy customers in the expectation of a bail-out.

Firms with the lowest and highest percentage of overdue receivables

Firms with the most overdue receivables as a percentage of their trade credit claim to have less choice as to suppliers than the sample average, and are only half as likely to base their trade relations on suppliers' financial solidity. Lack of alternatives is even more pronounced in the choice of customers. Financial solidity is of greater importance for firms in the top tail of the distribution, but still it is not the main criterion for more than 3/4 of them.

Interestingly, for both these groups the problem of overdue receivables is the main cause for payables in arrears. Thus even firms with the least overdue receivables this is a serious threat, perhaps because it forces them to act preventively by refusing to trade with dubious customers.

Firms with the most overdue trade loans are significantly more likely to expect a collapse of viable firms due to nonpayment of trade credit. On the other hand, this group is more reluctant to state that the authorities will be forced into a bail-out of trade arrears. Firms with the least receivables in arrears are instead less likely on average to expect a contagion effect. Puzzlingly, both types of firms are less likely than the sample average to expect to repay the rest of their arrears after a bail-out of bank loans. Those with the biggest

arrears are in general very cautious on this question, answering Don't know more than twice as often as the sample average. Thus there seems to be strong correlation between a firm's exposure to a financial threat and their view on the seriousness of its possible consequences, but firms are also cautious to appear to explicitly expect relief to their problem.

Perhaps unsurprisingly, firms with the most arrears are much less likely than the sample to state that some firms grant trade credit to uncreditworthy firm, while those in the opposite tail of the distribution are much more incline than the average to think so. Thus there is a tendency to view with suspicion the collusive behavior of other firms, and state it overtly, as long as the enterprise is not itself at risk of suspicion.

Net financial position (net lenders versus net borrowers)

Net borrowers state to have less options in the choice of suppliers. They are only half as likely as the sample to choose their trade partners on the basis of financial solidity, while net lenders state to be concerned with the financial solidity of the suppliers more often than average. Both types claim to have less choice over customer selection than the average. This confirm that trade credit is often involuntary.

It is clear that for the biggest net lenders the amount of receivables in arrears is the main cause for their payables in arrears, much more so than the average. For them the lack of demand is hardly ever the main concern. But on the other hand, net lenders are less likely to prefer to switch to another client when a customer is financially illiquid, accepting instead to grant trade credit. This inertia is at least suspicious. Curiously, net borrowers are very keen to switch.

85 % of net lenders are very convinced in a potential for a collapse, although both groups believe in it more strongly than the average firm. Interestingly, net lenders do not think the contagion can be avoided by switching to alternative customers; thus either denying any blame, or calling for relief. Net borrowers expect more frequently than average that the potential collapse will force a bail-out of trade arrears. Concerning bank arrears, both groups are more likely to expect a bail-out, though net lenders tend to anticipate only partial rather than general relief. Thus the biggest borrowers are keenly expecting a more generous financial relief. Finally, net lenders claim that the bail-out is not an important consideration for the extension of trade credit. In contrast, this is a strong belief held by net borrowers.

Net arrears position (overdue receivables minus overdue payables)

It emerges very clearly from the survey that firms with more net exposure to arrears have significantly less choice than average. Those who instead have more overdue payables than receivables tend to base their choice of trading partners on long term relationships, presumably to the dismay of their suppliers.

As it seems intuitive, firms with the lower net arrear position identify overdue receivables as the main cause of their own arrears. Predictably, for the bottom firms in terms of NAP (i.e., a very negative NAP) the main obstacle to paying on time is lack of profitability. Intriguingly, lack of demand is a much less significant problem for both these groups than for the sample average. Perhaps these firms incur arrears precisely because of an attitude to fulfil production plans and maintain trade even with unreliable trading partners.

Both types are more likely than the average to expect a contagion effect. The firms with more overdue receivables perceive a complete bail-out as more likely than a partial one, unlike the rest of the sample. They answered strongly “Yes” on whether a bail-out of arrears will allow them to pay any arrears, while the firms with most arrears say strongly “No” due to the lack of profitability of the enterprises.

The firms with the lowest NAP tend to think more often than average that suppliers will often give trade credit to uncreditworthy firms in the expectation of a bail-out. Firms with the highest NAP state the opposite view, perhaps again confirming a tendency to be less forthcoming about own possible opportunistic behavior than about others’.

Firms selecting answers associated with collusive attitudes

A final subsample of firms is selected on the basis of answers d (trade credit may be granted to an illiquid customer because of a lack of choice) and lla (some firms will grant trade credit to bad customers in the expectation of a bailout). The first group (18 firms) has in average losses equal to 40% of sales; the second (33 firms) has losses of around 30% of sales, versus a sample average of 12%. Interestingly, this subgroup does not include the worse firms. (About 26 firms in the sample have losses greater than sales.)

The first group of firms (which may include mostly involuntary trade lenders) is 40% more likely than average to choose to grant trade credit because of no alternative, the defining feature of the second group. The second group of firms (which is more involved in

trade credit) is more likely than the sample average to think that some suppliers will give collusive trade credit in the expectation of a bailout, the defining feature of the first group. Thus the two subsamples are correlated, though not strongly.

The main difference between two groups appears to be that their exposure to different **type** of arrears. The first group has bank arrears equal to 74% of sales, versus 23 % for the second group and 20% for the whole sample. The second group has receivables in arrears equal to 74% of total receivables, versus 36% for the first group and 40% for the total sample.

Firms in both these groups appear to have little alternative in the choice of trade partners. Still, the first group on average claims twice as often as the average more likely to choose buyers and suppliers on the base of financial solidity, an answer which justifies our fears about the reliability of answers to delicate questions. The second group is likely to do so only half as much as the sample average. Firms in the first group are more concerned than average with their lack of profitability, while the second group is more concerned about unpaid receivables.

The most significant answer which sets aside these firms from the average is that they are almost twice as the sample average to believe that the government will be forced to bail-out the trade arrears to avoid a financial contagion. Both groups, but **esppcially** the **second**, are less likely than the sample average to believe that switching may be a solution to the risk of contagion. The first group is more likely than **average** to say that they will not be able to repay their arrears even if they will be a bail-out of overdue bank loans. The opposite is true for the second group, which is **also less** sure of a b-ail-out of such arrears.

Their sensitivity and attitudes are clearly very influenced by these differences. The first group claims at least to be very careful about the financial solidity of its partners while the second group claims to have much less choice than the average. For the first group the **main** throat is the financial exposure, for the second group it is their receivables in arrears. The first group strongly expect a bailout of bank arrears, while the second group is less likely than the average to do so. The first group is convinced that if its bank arrears will be cleared it will be able to repay the rest, the second is less likely than average to think so. The first group is convinced that part of trade credit is opportunistically motivated and aims at inducing a bail-out, the second is only 40% more likely than the average to admit so.

Conclusions

Although preliminary, our conclusions are that there is abundant evidence of alertness to the possibility of a future bailout policy, a keen sense of a potential collective financial collapse caused by unpaid payables, and some recalcitrant admission of opportunistic motives in lending.

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Appendix I

Questions and answers from the first survey (1993)

Question 1

What part of your trading partners are from abroad:

a Former Soviet Union

b from the rest of the world

from domestic partners:

a traditional partners with which you have been working for a long time

b new partners since beginning of reform

Question 2

What are the main reason for your choice of trading partners:

Suppliers

66 a these are the only possible clients/suppliers

80 b we have been working for a long time and know well

18 c these firms are the most financially solid

Buyers

45 a these are the only possible clients/suppliers

74 b we have been working for a long time and know well

45 c these firms are the most financially solid

Question 3

What is the average duration in months:

a of your payables in arrear

b your receivables in arrear

Question 4

To which branch of industry are your biggest payables in arrears ?

Question 5

What is the main obstacle to your firm paying on time its suppliers?

76 a Receivables in arrear

50 b Bad financial position of firm

32 c Lack of demand

6 d Other

Question 6

If your client is not able to pay you in cash, what do you prefer?

88 a Switch to another domestic client

38 b to Switch to export

19 c To extend trade credit because your partner is financially solid

19 d to extend trade credit because you have no choice

Question 7

What are the main obstacles to your firm carrying out profit-oriented restructuring?

- 31 a The lack of proper legal framework
- 128 b High interest rates
- 102 c Bad financial position of enterprises
- 27 d Obsolete equipment
- 80 e The lack of demand
- 51 f Unstable economic environment
- 10 e Other

Question 8

Do you think that the large increasing number of value-subtractor firms will eventually result in a financial crisis of good firms as well ?

- 106 a Yes
- 27 b No, the good firms can always switch to **another** client
- 26 c No, because the government will be forced to bail out firm arrears
- 6 d I cannot say

Question 9

Do you expect a government bailout of your bank arrears ?

- 49 a Yes, a we expect a generalized bailout
- 59 b Yes, we expect a partial bailout
- 34 c We don' t expect a government bailout
- 22 d We cannot say

Question 10

Do you think that if your bank arrears will be cleared, you will be able to repay the rest of your arrears?

- 112 a Yes
- 28 b No, because of very bad financial position of firm
- 22 c I cannot say
- 4 d We have no bank arrears

Question 11

Do you think some firm will give trade **credit** to a financially not solid partner if it knows that these arrears will be bailed out ?

- 3s a Yes
- 75 b No
- 54 c It is not important for the extension of trade credit

Second Survey

Question 1

What is the main motivation in choosing your trade partners ?

- a They are the only suppliers/customers of the product.
- b We know this firm and we have worked with them for many years.
- c These firms are the most financially solid among all potential partners.

Question 2

Does your firm have payables in arrear:

- 1 To foreign firms
 - a to former Soviet Union firms
 - b to other COMECON firms
 - c to the rest of the world
- 2 To domestic firms
 - a to traditional clients
 - b to new firms with which the firm has started to work since the transition

Question 3

Does your firm have receivables in arrears from:

- 1 Foreign firms
 - a from former Soviet Union firms
 - b from other COMECON firms
 - c from the rest of the world

2 Domestic firms

- a from traditional clients
- b from new firms with which the firm has started to work since the transition

Question 4

What is the average duration in months:

- a of your payables in arrears ?
- b of your receivables in arrears ?

Question 5

To which branch in industry belong the firms to which you have the biggest payables in arrears ?

Question 6

To which branch in industry belong the firms to which you have the biggest receivables in arrear ?

Question 7

What is the main obstacle for your firm to pay on time its financial obligations ?

- a Receivables in arrear
- b Bank arrears
- c The lack of product demand
- d Other

Question 8

Do you think that the increasing number of bad firms eventually will lead to a collapse of good **firms** ?

- a I am absolutely convinced of that
- b I am not sure, good firms can always switch to better customers
- c I have no opinion

Question 9

If your client is not able to pay you in cash, what does your firm prefer to do:

- a Look for a better customer (domestic or foreigner)
- b Extend trade credit because you think the partner will eventually repay
- c Extend trade credit because of lack of choice

Question 10

Are you able to repay your trade **arrears** after the recent bail out of your bank arrears?

- a Yes
- b No
- c We cannot say
- d We have had no relief of our bank arrears

Question 11

Do you think that your receivables in arrears will be repaid after the recent bail out of bank arrears for your customers ?

- a Yes
- b No
- c We cannot say
- d We have no receivables in arrears

Question 12

What are the main 'obstacles to your firm to start profit-oriented restructuring ?

- a Lack of legal framework
- b High interest rates
- c Lack of market demand
- d Receivables in **arrear**
- e Unstable economic environment
- f Other reasons